

## Message Text

CONFIDENTIAL

PAGE 01 OTTAWA 01315 01 OF 03 152331Z  
ACTION EUR-08

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CIAE-00 EB-04 TRSE-00 ACDA-10 MCE-00 L-01 /053 W  
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TO SECSTATE WASHDC PRIORITY 6674  
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C O N F I D E N T I A L SECTION 01 OF 03 OTTAWA 01315

LIMDIS

OSD FOR ISA AND DSAA

E.O. 11652: GDS  
TAGS: CA, MASS, MARR  
SUBJECT: USG ROLE IN CANADIAN SELECTION OF NEW FIGHTER  
AIRCRAFT

SUMMARY: THIS MESSAGE ASKS WHETHER USG SHOULD PLAY A ROLE  
IN CANADA'S SELECTION OF NEW FIGHTER AIRCRAFT, AND PRO-  
POSES THAT WASHINGTON AGENCIES, IN ORDER TO ANSWER THAT  
QUESTION, CONDUCT A REVIEW OF RELEVANT FACTORS, INCLUDING  
IMPLICATIONS FOR NORAD, NATO, TRANS-ATLANTIC DIALOGUE,  
U.S. MILITARY PROCUREMENT AND U.S. ECONOMY. IF DECISION  
IS AFFIRMATIVE, EMBASSY RECOGNIZES THAT DEMARCHE COULD BE  
EXPECTED TO ELICIT GOC REQUESTS IN RETURN. GOC DECISION-  
MAKING SCHEDULE IS SUCH THAT REPRESENTATIONS BY SECRETARY  
BROWN TO MINISTER DANSON AT NATO MAY MINISTERIAL MIGHT BE  
APPROPRIATE. END SUMMARY.

1. BACKGROUND - ON 17 MARCH 1977, CABINET DECIDED TO  
REPLACE CANADA'S AGING FIGHTER FORCE OF CF-101'S, CF-104'S  
AND CF-5'S WITH A NEW FIGHTER AIRCRAFT (NFA). CANADIAN  
DOLLARS 2.34 BILLION (1977 DOLLARS) WAS EARMARKED FOR THIS  
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PAGE 02 OTTAWA 01315 01 OF 03 152331Z

PURCHASE (FIGURE IS ADJUSTED EACH YEAR FOR INFLATION).  
CABINET ALSO DIRECTED ESTABLISHMENT OF NFA EVALUATION  
TEAM TO GUIDE SELECTION PROCESS. IN THIS CONNECTION,  
DND DEPUTY MINISTER NIXON MET (AT HIS REQUEST) ON 31 MARCH  
1977 WITH AMBASSADOR AND DATT TO DISCUSS USG REGULATIONS  
ON PREPARING RFP'S, SOURCE SELECTION, AND ACQUISITION  
MANAGEMENT PROCEDURES.

2. NFA EVALUATION TEAM, UNDER BRIG GEN PAUL MANSON AS PROJECT DIRECTOR, NOW COMPRISES ALMOST TWO HUNDRED MEMBERS DRAWN PRIMARILY FROM DEPARTMENTS OF NATIONAL DEFENSE; SUPPLY AND SERVICES; AND INDUSTRY, TRADE AND COMMERCE. MANDATE IS TO PREPARE REPORT WHICH EVALUATES EACH CONTENDING PROPOSAL IN TERMS OF OPERATIONAL EFFECTIVENESS OF AIRCRAFT AND POTENTIAL BENEFITS TO CANADA OF ASSOCIATED INDUSTRIAL OFFSET PACKAGE. IN CURRENT CONTENTION ARE FIVE US-MANUFACTURED AIRCRAFT--GRUMMAN F-14, MCDONNELL-DOUGLAS F-15, GENERAL DYNAMICS F-16, TWO VERSIONS OF THE F-18 (PRIME CONTRACTOR OF ONE IS NORTHROP AND OF OTHER MCDONNELL-DOUGLAS)--AND ONE EUROPEAN-MANUFACTURED AIRCRAFT (PANAVIA TORNADO, JOINTLY PRODUCED BY FRG, UK AND ITALY). EVALUATION TEAM'S INTENT IS TO IDENTIFY FOR CABINET DECISION-MAKERS THE TWO OR THREE MOST ATTRACTIVE CONTENDERS. CONSIDERATION IS ALSO BEING GIVEN TO POTENTIAL VALUE OF TWO-AIRCRAFT BUY--ONE TYPE FOR NORAD ROLE AND ANOTHER FOR EMPLOYMENT IN NATO. THIS APPROACH COULD PROVIDE AIRCRAFT BETTER SUITED FOR EACH MISSION, BUT WITH PENALTIES OF REDUCTION IN NUMBER OF AIRCRAFT THAT COULD BE BOUGHT WITHIN AVAILABLE FUNDING, AND INCREASED OPERATING COSTS IN FUTURE. SCHEDULE NOW CALLS FOR CULLING OUT UNPROMISING CANDIDATES BY EARLY MAY, COMPLETING REPORT DURING EARLY SUMMER, SUBMISSION TO CABINET BY 2 SEPTEMBER, AND FINAL SELECTION IN OCTOBER 1978. IT IS NOT CLEAR AT WHAT

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PAGE 03 OTTAWA 01315 01 OF 03 152331Z

POINT IN THIS SCHEDULE CANADIANS WILL DECIDE TO PURCHASE ONE AIRCRAFT OR TWO, BUT EMBASSY BELIEVES THEY WILL ATTEMPT TO HOLD THIS OPTION OPEN AS LONG AS POSSIBLE, AND WELL PAST THE INITIAL CULLING PROCESS.

3. EUROPEAN INTEREST - EUROPEAN INTEREST IN THIS CONTRACT HAS BEEN KEEN FROM OUTSET. INTRA-EUROPEAN POLITICAL SENSITIVITIES DISAPPEARED AS A POTENTIALLY DISRUPTIVE FACTOR WHEN FRENCH CONTENDER (DASSAULT MIRAGE IV) DROPPED OUT AND LEFT ONLY ONE EUROPEAN (PANAVIA) IN THE FIELD. PRESSURES FROM THIS QUARTER ARE BOTH INDUSTRIAL AND POLITICAL.

4. EMBASSY HAS HAD DIFFICULTY GETTING ADEQUATE INFORMATION ABOUT PANAVIA OFFER, BUT WE UNDERSTAND OFFSET COULD EXCEED 100 PERCENT, THAT SOME SUB-ASSEMBLY WORK AND PRODUCTION OF COMPONENTS FOR TORNADO'S BEING PURCHASED BY OTHER COUNTRIES WOULD BE SITED IN CANADA, AND THAT SOME PART OF THE TRAINING ESTABLISHMENT FOR TORNADO AIRCREWS OF ALL THREE CONSORTIUM NATIONS WOULD BE PLACED IN CANADA, WITH A CONTRIBUTION OF 15 AIRCRAFT BEING MADE TO THAT FACILITY.

5. POLITICAL PRESSURES CENTER ON CANADA'S CONTRACTUAL LINK WITH THE EC, BORN OF ITS "THIRD OPTION" POLICY. OVER THE PAST SIX MONTHS, ANDREOTTI AND SCHMIDT ALMOST CERTAINLY PLAYED THIS CARD DURING VISITS TO OTTAWA, AND EMBASSY KNOWS THAT EC PRESIDENT ROY JENKINS, WHEN HE CALLED ON TRUDEAU MARCH 8, SPECIFICALLY MENTIONED THAT GOC SELECTION OF TORNADO WOULD GIVE MUCH NEEDED SUBSTANCE TO MUTUAL EXPRESSIONS OF INTENT. MOREOVER, AS INDICATED ABOVE,

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PAGE 01 OTTAWA 01315 02 OF 03 152340Z  
ACTION EUR-08

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C O N F I D E N T I A L SECTION 02 OF 03 OTTAWA 01315

SOME ELEMENTS OF PANAVIA PACKAGE ARE OFFERS ONLY GOVERNMENTS, NOT PRIVATE MANUFACTURERS, COULD MAKE.

6. U.S. ARMS SALES GUIDELINES - EMBASSY RECOGNIZES THAT CURRENT USG POLICY ON ARMS SALES, AS EXPRESSED BOTH IN PRESIDENTIAL DIRECTIVES AND LEGISLATION, AND AS REFLECTED IN EMBASSY GOALS AND OBJECTIVES STATEMENT COORDINATED AMONG RESPONSIBLE WASHINGTON AGENCIES, IMPOSES CERTAIN GUIDELINES AND RESTRAINTS. BASIC GOC DECISION TO REPLACE OBSOLESCENT AIRCRAFT CONSTITUTES EFFORT TO IMPROVE DEFENSES AND CONTRIBUTE TO COLLECTIVE SECURITY BY PARTICULARLY STABLE ALLY, AND HENCE SERVES BROADER U.S. INTEREST. REMAINING QUESTION, WITH WHICH EMBASSY BELIEVES USG MUST CONCERN ITSELF, IS "WHICH NFA?" REASON IS THAT DECISION-MAKING PROCESS WILL IMPACT ON U.S. INTERESTS IN TWO PHASES: FIRST, DURING PRELIMINARY CULLING WHEN U.S. CONTENDERS WILL BE COMPETING AGAINST ONE ANOTHER AS WELL AS THE EUROPEAN ENTRY; AND SECONDLY, ON FINAL CHOICE, WHICH COULD WELL COME DOWN TO ONE U.S. CANDIDATE VERSUS EUROPEAN TORNADO, IF ONLY TD PROVIDE GOC WITH LEVERAGE IT WOULD EXPECT FROM OFFERINGS HAVING DIFFERING NATIONAL SUPPORT. IN EMBASSY VIEW, THERE ARE VALID GROUNDS FOR

EXPRESSION OF U.S. INTEREST DURING BOTH PHASES, THOUGH THESE WOULD HAVE TO BE ADVANCED WITH CIRCUMSPECTION SO LONG AS MORE THAN ONE U.S. CONTENDER IS IN THE FIELD.  
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PAGE 02 OTTAWA 01315 02 OF 03 152340Z

EVEN THEN, HOWEVER, OBJECTIVE MILITARY CRITERIA COULD BE ASSERTED WHICH FURTHER U.S. INTERESTS BUT DO NOT DISCRIMINATE BETWEEN U.S. CONTENDERS. IN ORDER TO ASSESS THESE FACTORS, AND TO DEVELOP A CONSENSUS ON WHETHER AND TO WHAT DEGREE U.S. INTEREST SHOULD BE ASSERTED, EMBASSY BELIEVES A WASHINGTON INTER-AGENCY REVIEW IS NECESSARY. (IN THIS CONNECTION, TWO FACTORS SHOULD BE KEPT IN MIND: (A) SO LONG AS TWO-AIRCRAFT BUY REMAINS AN OPTION, USG COULD BE FACED WITH SITUATION IN WHICH AT LEAST ONE U.S. CONTENDER WILL BE SUCCESSFUL, AND CONCEIVABLY TWO; AND (B) CURRENT DND INTENTIONS ARE TO DEPLOY NFA AS FOLLOWS: 36 TO SUPPORT NORAD MISSIONS; 54 TO NATO CENTRAL FRONT, 12 TO 24 DEDICATED TO NORTHERN FLANK MISSIONS BUT STATIONED REGULARLY IN CANADA, AND 30 FOR SPARES, ATTRITION AND TRAINING.)

7. WE WOULD PUT FORWARD FOLLOWING TOPICS FOR WASHINGTON REVIEW:

A. IMPLICATIONS FOR NORAD - TAC IS TO PROVIDE A ONE-WING INTERCEPTOR CAPABILITY TO NORAD IN AN EMERGENCY. WHAT VALUE WOULD WE PLACE ON EQUIPPING U.S. AND CANADIAN FORCES WITH SAME TYPES OF INTERCEPTOR AIRCRAFT? ARE THERE ECONOMIES OF SCALE TO BE ACHIEVED WITH COMMON US-CANADA LOGISTICS SYSTEM? HOW SERIOUSLY WOULD GOC PURCHASE OF TORNADO IMPACT ON GOAL SET FORTH IN CJCS POSTURE STATEMENT OF ACHIEVING "INCREASED RATIONALIZATION, STANDARDIZATION AND INTEROPERABILITY AMONG U.S. AND CANADIAN FORCES"?

B. IMPLICATIONS FOR NATO - IT IS TRUE THAT TORNADO WOULD OFFER COMMONALITY WITH EQUIPMENT OF OTHER NATO AIR FORCES, AS WOULD U.S. AIRCRAFT TO VARYING DEGREES. HOWEVER,  
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PAGE 03 OTTAWA 01315 02 OF 03 152340Z

WOULD NATURE OF CANADIAN CHOICE IMPACT SIGNIFICANTLY ON OVER-ALL EFFECTIVENESS OF NATO FORCES? WOULD U.S. AND EUROPEAN CONTENDERS HAVE EQUAL CAPABILITY TO PERFORM CRITICAL MISSIONS IN DEFENSE OF WESTERN EUROPE? OR WOULD CANADIAN AIR ROLE IN EUROPE BE DEFINED OR REDefined AS A FUNCTION OF THE EQUIPMENT CANADA BUYS?

C. IMPLICATIONS FOR TRANS-ATLANTIC DIALOGUE - WOULD PURCHASE OF TORNADO BE IMPORTANT TO DEMONSTRATE NORTH AMERICAN COMMITMENT TO OBJECTIVES OF TAD? TO ALLEVIATE PRESSURES ON U.S. TO INCREASE DEFENSE SPENDING IN EUROPE?

D. IMPLICATIONS FOR USG PROCUREMENT - HOW WOULD GOC DECISION IMPACT ON COSTS TO USG OF MILITARY AIRCRAFT FOR OUR OWN USE? IF GOC CHOOSES A U.S. CONTENDER, WOULD FACTORY RUNS BE BENEFICIALLY EXTENDED; WOULD THERE BE DELAYS IN AIRCRAFT DELIVERIES TO U.S. FORCES?

E. IMPLICATIONS FOR U.S. ECONOMY - EVEN THOUGH NFA BUY WILL BE EITHER SUBSTANTIALLY OR FULLY OFFSET BY INDUSTRIAL BENEFITS PLACED IN CANADA, SELECTION OF U.S. CANDIDATE WOULD CLEARLY HAVE POSITIVE IMPACT ON U.S. ECONOMIC ACTIVITY AND EMPLOYMENT. OFFSETS WOULD ALSO STRENGTHEN CANADA'S AEROSPACE INDUSTRY, WHICH IN THE MUTUAL DEFENSE CONTEXT IS TO OUR ADVANTAGE, THOUGH WE MIGHT SUBSEQUENTLY BE PUT UNDER PRESSURE TO MAKE PURCHASES FROM IT.

8. IF WASHINGTON REVIEW OF FACTORS NOTED ABOVE RESULTS IN CONCLUSION THAT U.S. INTERESTS SHOULD BE BROUGHT TO ATTENTION OF GOC DURING NFA DECISION-MAKING PROCESS, WE MUST EXPECT THAT GOC IN TURN WOULD SEEK TO DERIVE ADVANTAGE FROM SUCH DEMARCHE. POSSIBLE PRESSURE POINTS INCLUDE:

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PAGE 01 OTTAWA 01315 03 OF 03 152343Z  
ACTION EUR-08

INFO OCT-01 ISO-00 SS-14 PM-03 INR-05 NSC-05 SP-02  
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C O N F I D E N T I A L SECTION 03 OF 03 OTTAWA 01315

A. REQUEST FOR INCREASED ACCESS TO MATERIAL NOW CLASSIFIED NOFORN (THIS IS LONG-STANDING IRRITANT WITH CANADA'S DEFENSE INDUSTRY);

B. EARLIER ACCESS TO U.S. MILITARY REQUIREMENTS DOCUMENTATION SO AS TO PERMIT CANADIAN INDUSTRY TO COME IN WITH BIDS AT BEGINNING OF NEW PROGRAMS;

C. PERHAPS SOME FURTHER REASSURANCES ON BENEFITS CANADA CAN EXPECT FROM DPSA. WE DOUBT THAT GOC WOULD SPECIFICALLY ASK FOR REVISIONS TO AGREEMENT, SINCE IT WOULD RISK LOSING MORE THAN IT GAINS, ESPECIALLY IN LIGHT OF RECENT GOC PROCUREMENT IN THIRD COUNTRIES, CONTRARY TO AGREEMENT PROVISIONS FAVORING U.S.

9. TIMING AND TACTICS - IN EMBASSY VIEW, FIRST ORDER OF BUSINESS IS WASHINGTON REVIEW TO DETERMINE BALANCE OF U.S. INTERESTS, AND ADVISABILITY OF DEMARCHE TO GOC OR OTHER ACTIONS SUPPORTIVE OF U.S. CONTENDERS. SECOND COMES NATURE OF THAT DEMARCHE (IF AGREED UPON), WHICH WOULD BE INFLUENCED BY OUTCOME OF INITIAL CULLING PROCESS DUE TO BE COMPLETED IN EARLY MAY. IF MORE THAN ONE U.S. CONTENDER--OR IF ONLY U.S. CONTENDERS--REMAIN IN THE RACE, U.S. REPRESENTATIONS WOULD NEED TO BE EVEN-HANDED, CONFIDENTIAL

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PAGE 02 OTTAWA 01315 03 OF 03 152343Z

FOCUSSING ON DEFENSE AND INDUSTRIAL CONSIDERATIONS APPLICABLE TO ALL U.S. CONTENDERS. SECRETARY BROWN MIGHT APPROPRIATELY MAKE SUCH REPRESENTATIONS TO MINISTER DANSON DURING NATO MINISTERIAL IN MAY. THIS APPROACH WOULD LEND ITSELF TO FURTHER REFINEMENT DURING COURSE OF THE SUMMER, DEPENDING ON DIRECTION WHICH NFA EVALUATION TEAM IS TAKING. ENDERS

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## Message Attributes

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